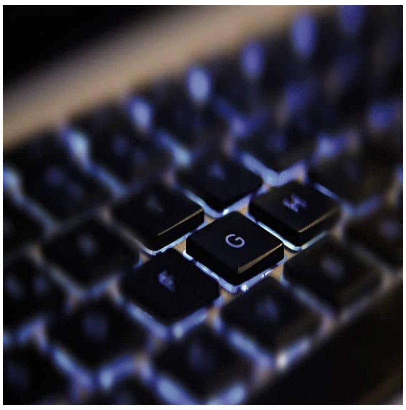

Why Investors Should Think Twice Before Investing in Sierra Wireless, Inc.

Description

Sierra Wireless, Inc. (TSX:SW)(NASDAQ:SWIR) has been struggling mightily this past year, as the stock has dropped 40% in value and hit a new 52-week low just a few months ago. The share price is hanging on to support at $20, but Sierra has shown no signs of recovery just yet.

Investors are wondering whether or not Sierra has bottomed out and if it's a good time to buy, or if there could be more of a decline to come.

While there's no guarantee which direction the stock will go from here, what we can do is look at the company's fundamentals and at technical indicators to gauge whether the stock is likely to reverse its fortunes.

Fundamental analysis

A good place to start when analyzing a company is looking at its recent financial performance. In its most recent quarter, Sierra's sales were up 13%; however, the company failed to stay out of the red for the second time in the past four quarters.

A big problem for investors is the company's lack of profit growth, despite seeing its revenues rise nearly 60% over the past four years. It also didn't help that the company had warned investors that Q1 would be "impacted by some unusual and mainly non-recurring items." A bad earnings result is usually enough to send a stock down in price; a bad forecast could do even more damage.

Sooner or later, investors will start requiring a company to turn a profit, especially if sales aren't growing, which brings us to another big issue: lack of sales growth. In 2017, Sierra's sales increased 12% and the year before that grew by only 1%. Although the company is in the tech sector, its growth is a bit underwhelming from what you'd expect it to be given the potential that exists in the emerging Internet of Things industry.

Growth potential remains strong

Sierra has failed to achieve the growth that investors have been hoping for, but that doesn't mean the potential isn't there. There are a lot of different avenues and industries that Sierra can expand its products and services into, and that shouldn't be ignored by investors.

A look at the stock movement

Sierra's stock has been oversold many times during the past year, and its support level has dropped from $24 down to $20. In three months, the stock has declined 14%, and the bleeding hasn't stopped just yet, as Sierra is down 5% in just the last month. Its 50-day moving average (MA) is trading well below its 200-day MA, and at this point the company needs a good earnings or some big news to help dig itself out of this hole.

Should you consider buying today?

For a value investor, Sierra doesn't offer much with earnings per share of just $0.13 in the trailing 12 months. Even though the stock is trading close to its book value, the company's inability to consistently turn a profit and a lack of free cash flow simply make Sierra a risky buy today.

Growth investors can cling to the hope that the stock will eventually realize its potential, but the company needs to produce something tangible to prove that's going to happen. For the time being, I'd wait for the stock to show some signs of life before buying.

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